



Merafong City Local Municipality
Annual Financial Statements
for the year ended 30 June 2017

GT 484

Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2017

General Information

Legal form of entity	Local Municipality
Nature of business and principal activities	Municipality
Legislation governing the municipality's operations	Municipal Finance Management Act (Act no.56 of 2003)
Grading of local authority	The municipality is a category C grade 4 local authority in terms of item 4 of the Government Notice R1227 of 18 December 2007 published in terms of the Remuneration of Public Office Bearers Act, 1998
Mayoral committee	
Executive Mayor	Mogale-Letsie SM
Speaker	Mphithikezi TE
Chief Wip	Mosiane WT
Members of Mayoral Committee	MMC Roads Stormwater and Public Works: Sello GM MMC Health and Social Development: Lekopa EM MMC Corporate and Shared Services: Ngqele M MMC Integrated Environmental Management: Lephuting MB MMC Local Economic, Tourism and Rural Development: Best N MMC for Finance: Tabane DV MMC Public Safety and Transport: Matshe MN MMC Electricity Gas and Water: Dhamini MD MMC Human Settlement and Land Development: Moyeni M MMC Sports, Recreation, Arts And Culture: Skosana ML
Chief Financial Officer (CFO)	Wienekus, Matthys Gerhardus (Acting)
Accounting Officer	Mohaudi, Romeo (Acting)
Registered office	Halite Street Carletonville
Business address and Contact details	Halite Street Carletonville Telephone number: 018 788 9500 Fax number: 018 786 1105 Website address: www.merafong.gov.za
Postal address	PO Box 3, Carletonville, 2500
Bankers	Nedbank Ltd
Auditors	Auditor-General of South Africa

Merafong City Local Municipality

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The reports and statements set out below comprise the annual financial statements presented to the Auditor-General of SA for audit:

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EPWP	Extended Public Works Programme
GRAP	Generally Recognised Accounting Practice
IPSAS	International Public Sector Accounting Standards
MFMA	Municipal Finance Management Act (Act No 56 of 2003)
MIG	Municipal Infrastructure Grant
NLDTF	National Lottery Distribution Trust Fund
SALGBC	South African Local Government Bargaining Council
SDL	Skills Development Levy
UIF	Unemployment Insurance Fund
VAT	Value Added Tax (Act No. 89 of 1999)
WCA	Workmen's Compensation
WRDM	West Rand District Municipality

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Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and places considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2018 and, in the light of this review and the current financial position, he is satisfied that the municipality has, or has access to, adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's internal auditors.

The external auditors are responsible for independently auditing and reporting on the municipality's annual financial statements.

The annual financial statements set out on pages 4 to 71, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2017:

Mohaudi, Romeo (Acting)
Accounting Officer

Merafong
31 August 2017

Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Statement of Financial Position as at 30 June 2017

Figures in Rand	Note(s)	2017	2016 Restated*
Assets			
Current Assets			
Inventories	9	25,179,710	30,848,787
Receivables from exchange transactions	10	35,208,722	27,809,108
Consumer debtors	12	197,499,456	188,357,397
Other receivables from non-exchange transactions	11	4,280,794	2,013,377
Cash and cash equivalents	13	206,443,600	84,789,166
		468,612,282	333,817,835
Non-Current Assets			
Property, plant and equipment	3	3,020,210,698	3,022,833,504
Intangible assets	4	2,307,612	2,774,902
Heritage assets	5	197,084	197,084
Investments	8	-	4,171,083
		3,022,715,394	3,029,976,573
Total Assets		3,491,327,676	3,363,794,408
Liabilities			
Current Liabilities			
Long-term liabilities	14	5,347,741	4,887,531
Finance lease obligation	15	639,654	576,805
Payables from exchange transactions	18	501,272,850	308,682,632
VAT payable	19	40,790,620	50,997,537
Consumer deposits	20	13,664,460	12,686,551
Employee benefit obligation	7	3,107,491	3,028,788
Unspent conditional grants, receipts and donations	16	49,306,116	15,122,680
Provisions	17	28,134,057	26,747,880
		642,262,989	422,730,404
Non-Current Liabilities			
Long-term liabilities	14	63,116,964	68,532,373
Finance lease obligation	15	957,118	345,601
Employee benefit obligation	7	112,258,424	118,689,302
Provisions	17	34,890,259	30,631,930
		211,222,765	218,199,206
Total Liabilities		853,485,754	640,929,610
Net Assets		2,637,841,922	2,722,864,798
Net Assets			
Accumulated surplus		2,637,841,922	2,722,864,798

Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Statement of Financial Performance

Figures in Rand	Note(s)	2017	2016 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	23	619,536,220	600,520,122
Rental of facilities and equipment		1,319,268	1,381,410
Interest earned - outstanding receivables		73,424,080	54,673,641
Licences and permits		14,320,623	11,410,584
Other income	25	4,928,452	4,803,834
Interest earned - external investments	31	7,317,640	5,602,314
Total revenue from exchange transactions		720,846,283	678,391,905
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	22	161,529,997	150,416,412
Property rates - penalties imposed	22	3,154,963	1,070,224
Transfer revenue			
Government grants & subsidies	24	381,998,207	347,064,153
Public contributions and donations	26	1,958,776	922,931
Fines		30,926,502	13,496,334
Total revenue from non-exchange transactions		579,568,445	512,970,054
Total revenue		1,300,414,728	1,191,361,959
Expenditure			
Employee related costs	28	(291,183,282)	(296,105,178)
Remuneration of councillors	29	(19,884,267)	(19,795,029)
Depreciation and amortisation	32	(110,961,076)	(106,082,035)
Disaster management		(82,075,992)	-
Impairment loss		(3,503,303)	(15,271,219)
Finance costs	33	(23,440,277)	(9,969,414)
Debt impairment	30	(272,961,390)	(227,205,755)
Collection costs		(3,104,728)	(2,645,120)
Repairs and maintenance		(16,741,297)	(11,839,876)
Bulk purchases	36	(391,828,906)	(382,313,992)
Contracted services	34	(64,680,332)	(81,951,675)
Grants and subsidies paid	35	(9,018,959)	(26,548,130)
General expenses	27	(98,953,795)	(77,891,978)
Total expenditure		(1,388,337,604)	(1,257,619,401)
Operating deficit		(87,922,876)	(66,257,442)
Profit on disposal of assets		2,900,000	47,973
Deficit for the year		(85,022,876)	(66,209,469)

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Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	2,786,110,082	2,786,110,082
Adjustments		
Correction of errors (Note 42)	2,964,185	2,964,185
Balance at 01 July 2015 restated	2,789,074,267	2,789,074,267
Changes in net assets		
Deficit for the year	(66,209,469)	(66,209,469)
Total changes	(66,209,469)	(66,209,469)
Balance at 01 July 2016 restated	2,722,864,798	2,722,864,798
Changes in net assets		
Deficit for the year	(85,022,876)	(85,022,876)
Total changes	(85,022,876)	(85,022,876)
Balance at 30 June 2017	2,637,841,922	2,637,841,922
Note(s)		

Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Cash Flow Statement

Figures in Rand	Note(s)	2017	2016 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services & taxes		640,044,195	604,229,974
Grants		415,589,682	343,026,566
Interest income		12,842,283	5,602,314
Other receipts		3,429	25,538
		<u>1,068,479,589</u>	<u>952,884,392</u>
Payments			
Employee costs		(294,018,583)	(290,664,908)
Suppliers		(528,239,489)	(531,634,455)
Finance costs		(11,820,210)	(9,969,414)
Other payments		(3,208,288)	5,675,980
		<u>(837,286,570)</u>	<u>(826,592,797)</u>
Net cash flows from operating activities	37	<u>231,193,019</u>	<u>126,291,595</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(113,957,988)	(148,647,475)
Proceeds from sale of property, plant and equipment	3	5,800,000	-
Purchase of other intangible assets	4	-	(554,790)
Proceeds from sale of financial assets		-	3,339
Proceeds from sale of investments		4,171,083	7,100,485
Net cash flows from investing activities		<u>(103,986,905)</u>	<u>(142,098,441)</u>
Cash flows from financing activities			
Proceeds from long-term liabilities		-	30,300,000
Repayment of long-term liabilities		(4,955,199)	(14,762,683)
Finance lease payments		(596,481)	(889,260)
Net cash flows from financing activities		<u>(5,551,680)</u>	<u>14,648,057</u>
Net decrease in cash and cash equivalents		121,654,434	(1,158,789)
Cash and cash equivalents at the beginning of the year		84,789,166	85,947,955
Cash and cash equivalents at the end of the year	13	<u>206,443,600</u>	<u>84,789,166</u>

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Variance between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	678,401,525	(21,196,269)	657,205,256	619,536,220	(37,669,036)	
Rental of facilities and equipment	1,171,715	-	1,171,715	1,319,268	147,553	
Interest earned - outstanding receivables	78,413,913	-	78,413,913	73,424,080	(4,989,833)	
Interest earned - external investment	2,785,606	2,814,394	5,600,000	7,317,640	1,717,640	52
Licences and permits	37,000,000	-	37,000,000	14,320,623	(22,679,377)	52
Other income	61,953	3,587,115	3,649,068	4,928,452	1,279,384	
Total revenue from exchange transactions	797,834,712	(14,794,760)	783,039,952	720,846,283	(62,193,669)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	227,028,207	(61,824,207)	165,204,000	161,529,997	(3,674,003)	
Property rates - penalties imposed	-	-	-	3,154,963	3,154,963	
Transfer revenue						
Government grants & subsidies	349,854,850	86,287,264	436,142,114	381,998,207	(54,143,907)	
Public contributions and donations	-	-	-	1,958,776	1,958,776	
Fines, Penalties and Forfeits	5,432,860	-	5,432,860	30,926,502	25,493,642	
Total revenue from non-exchange transactions	582,315,917	24,463,057	606,778,974	579,568,445	(27,210,529)	
Total revenue	1,380,150,629	9,668,297	1,389,818,926	1,300,414,728	(89,404,198)	
Expenditure						
Employee related costs	(327,676,103)	-	(327,676,103)	(291,183,282)	36,492,821	52
Remuneration of councillors	(20,982,732)	297,373	(20,685,359)	(19,884,267)	801,092	
Transfer payments - Other	-	-	-	(82,075,992)	(82,075,992)	
Depreciation and amortisation	(106,226,073)	-	(106,226,073)	(110,961,076)	(4,735,003)	
Impairment loss/ Reversal of impairments	-	-	-	(3,503,303)	(3,503,303)	
Finance costs	(12,400,000)	(24,482,000)	(36,882,000)	(23,440,277)	13,441,723	52
Debt impairment	(335,746,063)	75,854,063	(259,892,000)	(272,961,390)	(13,069,390)	
Collection costs	(5,096,000)	-	(5,096,000)	(3,104,728)	1,991,272	
Repairs and maintenance	(26,792,840)	-	(26,792,840)	(16,741,297)	10,051,543	
Bulk purchases	(440,187,716)	19,272,000	(420,915,716)	(391,828,906)	29,086,810	
Contracted Services	(108,001,014)	-	(108,001,014)	(64,680,332)	43,320,682	
Transfers and Subsidies	-	-	-	(9,018,959)	(9,018,959)	
General Expenses	(69,644,646)	(99,412,814)	(169,057,460)	(98,953,795)	70,103,665	
Total expenditure	(1,452,753,187)	(28,471,378)	(1,481,224,565)	(1,388,337,604)	92,886,961	
Operating deficit	(72,602,558)	(18,803,081)	(91,405,639)	(87,922,876)	3,482,763	

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Variance between final budget and actual	Reference
Figures in Rand						
Gain on disposal of assets and liabilities	-	-	-	2,900,000	2,900,000	
Surplus	(72,602,558)	(18,803,081)	(91,405,639)	(85,022,876)	6,382,763	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	(72,602,558)	(18,803,081)	(91,405,639)	(85,022,876)	6,382,763	

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Annual Financial Statements for the year ended 30 June 2017

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2017											
Financial Performance											
Property rates	227,028,207	(61,824,207)	165,204,000	-		165,204,000	164,684,960		(519,040)	100 %	73 %
Service charges	678,401,525	(21,196,269)	657,205,256	-		657,205,256	619,536,220		(37,669,036)	94 %	91 %
Investment revenue	2,785,606	2,814,394	5,600,000	-		5,600,000	7,317,640		1,717,640	131 %	263 %
Transfers recognised - operational	206,523,000	58,650,642	265,173,642	-		265,173,642	381,998,207		116,824,565	144 %	185 %
Other own revenue	122,080,442	3,587,114	125,667,556	-		125,667,556	126,877,971		1,210,415	101 %	104 %
Total revenue (excluding capital transfers and contributions)	1,236,818,780	(17,968,326)	1,218,850,454	-		1,218,850,454	1,300,414,998		81,564,544	107 %	105 %
Employee costs	(327,676,103)	-	(327,676,103)	-	-	(327,676,103)	(291,183,282)	-	36,492,821	89 %	89 %
Remuneration of councillors	(20,982,732)	297,373	(20,685,359)	-	-	(20,685,359)	(19,884,267)	-	801,092	96 %	95 %
Debt impairment	(335,746,063)	75,854,063	(259,892,000)			(259,892,000)	(272,961,390)	-	(13,069,390)	105 %	81 %
Depreciation and asset impairment	(106,226,073)	-	(106,226,073)			(106,226,073)	(114,464,379)	-	(8,238,306)	108 %	108 %
Finance charges	(12,400,000)	(24,482,000)	(36,882,000)	-	-	(36,882,000)	(23,440,277)	-	13,441,723	64 %	189 %
Materials and bulk purchases	(440,187,716)	19,272,000	(420,915,716)	-	-	(420,915,716)	(391,828,906)	-	29,086,810	93 %	89 %
Other expenditure	(209,534,500)	(99,412,814)	(308,947,314)	-	-	(308,947,314)	(274,575,373)	-	34,371,941	89 %	131 %
Total expenditure	(1,452,753,187)	(28,471,378)	(1,481,224,565)	-	-	(1,481,224,565)	(1,388,337,874)	-	92,886,691	94 %	96 %
Surplus/(Deficit)	(215,934,407)	(46,439,704)	(262,374,111)	-		(262,374,111)	(87,922,876)		174,451,235	34 %	41 %
Surplus/(Deficit) for the year	(215,934,407)	(46,439,704)	(262,374,111)	-		(262,374,111)	(87,922,876)		174,451,235	34 %	41 %

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Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Capital expenditure and funds sources											
Sources of capital funds											
Transfers recognised - capital	143,331,850	27,636,622	170,968,472	-		170,968,472	92,868,764		(78,099,708)	54 %	65 %
Borrowing	7,100,000	8,204,394	15,304,394	-		15,304,394	12,837,544		(2,466,850)	84 %	181 %
Internally generated funds	1,460,000	262,920	1,722,920	-		1,722,920	8,251,680		6,528,760	479 %	565 %
Total sources of capital funds	151,891,850	36,103,936	187,995,786	-		187,995,786	113,957,988		(74,037,798)	61 %	75 %
Cash flows											
Net cash from (used) operating	107,852,121	(123,899,793)	(16,047,672)	-		(16,047,672)	231,193,019		247,240,691	(1,441)%	214 %
Net cash from (used) investing	(76,008,000)	132,372,969	56,364,969	-		56,364,969	(103,986,905)		(160,351,874)	(184)%	137 %
Net cash from (used) financing	(11,798,827)	87,665,020	75,866,193	-		75,866,193	(5,551,680)		(81,417,873)	(7)%	47 %
Net increase/(decrease) in cash and cash equivalents	20,045,294	96,138,196	116,183,490	-		116,183,490	121,654,434		5,470,944	105 %	607 %
Cash and cash equivalents at the beginning of the year	108,505,683	(116,183,490)	(7,677,807)	-		(7,677,807)	84,789,166		92,466,973	(1,104)%	78 %
Cash and cash equivalents at year end	128,550,977	(20,045,294)	108,505,683	-		108,505,683	206,443,600		(97,937,917)	190 %	161 %

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Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. When any significant judgements and sources of estimation uncertainty are applicable, they have been disclosed in the relevant notes and policies.

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values.

Impairment testing

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including uncontrollable ageing, together with economic factors such as inflation.

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Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.2 Property, plant and equipment

INITIAL RECOGNITION

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

SUBSEQUENT MEASUREMENT - COST MODEL

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset and the cost or fair value of the item can be measured reliably.

DEPRECIATION AND IMPAIRMENT

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

Infrastructure		Other	
Roads and Storm water	5 - 80 Years	Buildings	5 - 100 Years
Electricity	15 - 50 Years	Other vehicles	5 - 8 Years
Water	10 - 80 Years	Office equipment	3 - 12 Years
Sewerage	10 - 50 Years	Furniture and fittings	7 - 15 Years
		Plant and equipment	7 - 25 Years
		Computer equipment	5 - 8 Years
		Library Material	8 - 15 Years
		Other assets	5 - 12 Years
		Land	Indefinite

The residual value, the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The entity assesses at each reporting date whether there is any indication that the entity expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the entity revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

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Accounting Policies

The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

DERECOGNITION

Items of Property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.3 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired through a non-exchange transaction, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

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INITIAL RECOGNITION

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the municipality intends to complete the intangible asset for use or sale;
- it is technically feasible to complete the intangible asset;
- the municipality has the resources to complete the project; and
- it is probable that the municipality will receive future economic benefits or service potential.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

SUBSEQUENT MEASUREMENT - COST MODEL

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

AMORTISATION AND IMPAIRMENT

Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method. The annual amortisation rates are based on the following estimated average asset lives:

Computer software	3 - 10 years
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The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

DERECOGNITION

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising from the derecognition of an intangible asset is included in surplus or deficit when the asset is derecognised.

1.4 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements. Heritage assets at the municipality are primarily art work.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

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Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that a municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Impairment

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

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Accounting Policies

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.5 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one municipality and a financial liability or a residual interest of another municipality.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Derecognition is the removal of a previously recognised financial asset or financial liability from an municipality's statement of financial position.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an municipality shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the municipality shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another municipality; or
- a contractual right to:
 - receive cash or another financial asset from another municipality; or
 - exchange financial assets or financial liabilities with another municipality under conditions that are potentially favourable to the municipality.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another municipality; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an municipality in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

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Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an municipality after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unissued capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an municipality's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an municipality.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the municipality had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the municipality designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class

Trade and other receivables (including long-term receivables)
Cash and cash equivalents
Investments

Category

Financial asset measured at amortised cost

Financial asset measured at amortised cost
Financial asset measured at amortised cost

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class

Long-term liabilities
Payables from exchange transactions
Consumer deposits
Unspent conditional grants and receipts

Category

Financial liability measured at amortised cost
Financial liability measured at amortised cost
Financial liability measured at amortised cost
Financial liability measured at amortised cost

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Accounting Policies

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The municipality first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the municipality analyses a concessionary loan into its component parts and accounts for each component separately. The municipality accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

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Accounting Policies

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The municipality does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the municipality cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the municipality reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

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If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

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Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality :
 - derecognise the asset; and
 - Recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the municipality transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the municipality has retained substantially all the risks and rewards of ownership of the transferred asset, the municipality continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the municipality recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another municipality by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

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Accounting Policies

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.6 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.7 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

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Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.8 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

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Accounting Policies

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Foreign currency future cash flows

Future cash flows are estimated in the currency in which they will be generated and then discounted using a discount rate appropriate for that currency. The municipality translates the present value using the spot exchange rate at the date of the value in use calculation.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

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Accounting Policies

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

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Accounting Policies

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.9 Impairment of non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

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Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the most appropriate between the following approaches:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Service units approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

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Accounting Policies

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.10 Employee benefits

Employee benefits are all forms of consideration given by an municipality in exchange for service rendered by employees.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

A constructive obligation is an obligation that derives from an municipality's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the municipality has indicated to other parties that it will accept certain responsibilities and as a result, the municipality has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

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Accounting Policies

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Multi-employer plans

The municipality classifies a multi-employer plan as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the municipality accounts for in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the municipality account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the municipality account for the plan as if it was a defined contribution plan.

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Accounting Policies

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an municipality pays fixed contributions into a separate municipality (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the municipality during a reporting period, the municipality recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

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Accounting Policies

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the municipality's informal practices. Informal practices give rise to a constructive obligation where the municipality has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the municipality's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- plus any liability that may arise as a result of a minimum funding requirement

The municipality determine the present value of defined benefit obligations with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- actuarial gains and losses;
- past service cost; and
- the effect of any curtailments or settlements

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, a municipality shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, a municipality shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

Merafong City Local Municipality

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Accounting Policies

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
 - those changes were enacted before the reporting date; or
 - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Other post retirement obligations

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- actuarial gains and losses, which are recognised immediately;
- past service cost, which are recognised immediately; and
- the effect of any curtailments or settlements.

Merafong City Local Municipality

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Accounting Policies

1.11 Provisions and contingencies

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

(a) The municipality has a detailed formal plan for the restructuring identifying at least:

- the business or part of a business concerned;
- the principal locations affected;
- the location, function, and approximate number of employees who will be compensated for terminating their services;
- the expenditures that will be undertaken; and
- when the plan will be implemented; and

(b) The municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Landfill rehabilitation

The Landfill Rehabilitation Provision is created for the rehabilitation of the current operational sites at the future estimated time of closure.

The value of the Provision is based on the expected future cost to rehabilitate the various sites discounted back to the balance sheet date at the cost of capital, which is currently 8.90% (2016:8.54%).

The municipality has an obligation to rehabilitate these Landfill sites. The cost of such property includes the initial estimate of the costs of rehabilitating the land and restoring the site on which it is located, the obligation for which a municipality incurs as a consequence of having used the property during a particular period for landfill purposes. The municipality estimates the useful lives and make assumptions as to the useful lives of these assets, which influence the provision for future costs.

The asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;

(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and

(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in surplus or deficit.

Accounting Policies

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.8 and 1.9.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.12 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

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Accounting Policies

Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. The estimates of consumption between meter readings are based on the average of the past six months readings.

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse containers per property.

Service charges from sewerage and sanitation are based on the number of sewerage connections on each developed property using the tariffs approved from Council and are levied monthly.

Interest revenue is recognised on a time proportion basis.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Dividends are recognised on the date that the Municipality becomes entitled to receive the dividend.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licences and permits.

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods is passed to the consumer.

Revenue arising out of situations where the municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.

Revenue is the gross inflows of economic benefits or service potential during the reporting period when those inflows result in increases in net assets, other than increases relating to contributions from owners.

Revenue is measured at the fair value of the consideration received or receivable.

When the inflow of cash or cash equivalents is deferred and the fair value of the consideration is less than the nominal amount of cash received or receivable, the arrangement effectively constitutes a financing transaction. The fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either:

- The prevailing rate for a similar instrument of an issuer with a similar credit rating; or
- A rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

Revenue from the sale of goods is recognised when the following conditions have been satisfied:

- The municipality has transferred to the buyer the significant risks and rewards of ownership.
- The municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

1.13 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Merafong City Local Municipality

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Accounting Policies

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Merafong City Local Municipality

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Accounting Policies

Taxes (Property Rates)

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Debt forgiveness and assumption of liabilities

The municipality recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Bequests

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality, and the fair value of the assets can be measured reliably.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Merafong City Local Municipality

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Accounting Policies

Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

1.14 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.15 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.16 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.17 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.18 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.19 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.20 Going concern

These annual financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

1.21 Commitments

The annual financial statements have been prepared on the basis of accounting policies applicable to liquidation. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business until the entity is deregistered.

Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.22 VAT

VAT is payable on the receipts basis. The municipality is liable to account for VAT at the standard rate (14%) in terms of section 7 (1) (a) of the VAT Act, in respect of the supply of goods or services except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or is out of scope for VAT purposes.

VAT is paid over to SARS only once payment is received from debtors and claimed from SARS once payment is made to a creditor.

1.23 Budget information

Municipalities are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipalities provides information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01/07/16 to 30/06/17.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.24 Related parties

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.25 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

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2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2017 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 34: Separate Financial Statements	01 April 2017	Unlikely there will be a material impact
• GRAP 35: Consolidated Financial Statements	01 April 2017	Unlikely there will be a material impact
• GRAP 36: Investments in Associates and Joint Ventures	01 April 2017	Unlikely there will be a material impact
• GRAP 37: Joint Arrangements	01 April 2017	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	01 April 2017	Unlikely there will be a material impact
• GRAP 110: Living and Non-living Resources	01 April 2017	Unlikely there will be a material impact
• GRAP 12 (as amended 2016): Inventories	01 April 2018	Unlikely there will be a material impact
• GRAP 27 (as amended 2016): Agriculture	01 April 2018	Unlikely there will be a material impact
• GRAP 31 (as amended 2016): Intangible Assets	01 April 2018	Unlikely there will be a material impact
• GRAP 103 (as amended 2016): Heritage Assets	01 April 2018	Unlikely there will be a material impact
• GRAP 110 (as amended 2016): Living and Non-living Resources	01 April 2018	Unlikely there will be a material impact
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	01 April 2019	Unlikely there will be a material impact
• Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities	01 April 2018	Unlikely there will be a material impact
• GRAP 20: Related parties	01 April 2017	Unlikely there will be a material impact
• GRAP 26 (as amended 2016): Impairment of cash-generating assets	01 April 2018	Unlikely there will be a material impact
• GRAP 109: Accounting by Principals and Agents	01 April 2017	Unlikely there will be a material impact
• GRAP 21 (as amended 2016): Impairment of non-cash-generating assets	01 April 2018	Unlikely there will be a material impact
• GRAP 108: Statutory Receivables	01 April 2017	Unlikely there will be a material impact
• GRAP 32: Service Concession Arrangements: Grantor	01 April 2017	Unlikely there will be a material impact
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2017	Unlikely there will be a material impact
• GRAP 17 (as amended 2016): Property, Plant and Equipment	01 April 2018	Unlikely there will be a material impact
• GRAP 16 (as amended 2016): Investment Property	01 April 2018	Unlikely there will be a material impact
• GRAP 106 (as amended 2016): Transfers of functions between entities not under common control	01 April 2018	Unlikely there will be a material impact

Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2017

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3. Property, plant and equipment

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land and buildings	758,892,965	(238,654,185)	520,238,780	740,629,073	(224,517,710)	516,111,362
Infrastructure	4,151,170,160	(1,678,381,744)	2,472,788,416	4,067,528,252	(1,588,627,545)	2,478,900,708
Community	24,523,286	(18,204,752)	6,318,535	23,102,800	(16,422,850)	6,679,949
Finance lease assets	1,974,270	(1,445,140)	529,130	1,905,721	(1,323,229)	582,492
Other property, plant and equipment	48,329,107	(27,993,270)	20,335,837	46,815,569	(26,256,576)	20,558,993
Total	4,984,889,789	(1,964,679,091)	3,020,210,698	4,879,981,415	(1,857,147,911)	3,022,833,504

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals and Impairment losses	Other changes/ movements	Depreciation	Total
Land and buildings	516,111,362	21,163,892	(2,900,000)	-	(14,136,474)	520,238,780
Infrastructure	2,478,900,708	87,986,810	(2,931,678)	52,252	(91,219,676)	2,472,788,416
Community	6,679,949	1,420,487	-	-	(1,781,900)	6,318,535
Finance lease assets	582,492	105,148	(22,036)	-	(136,474)	529,130
Other property, plant and equipment	20,558,993	3,281,651	(549,589)	264,043	(3,219,262)	20,335,837
	3,022,833,504	113,957,988	(6,403,302)	316,295	(110,493,786)	3,020,210,698

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals and Impairment losses	Other changes/ movements	Depreciation	Total
Land and buildings	523,694,116	11,967,964	-	(5,536,439)	(14,014,278)	516,111,362
Infrastructure	2,460,385,433	126,197,275	(13,484,652)	(7,089,384)	(87,107,964)	2,478,900,708
Community	5,079,602	3,081,549	(588,125)	-	(893,078)	6,679,949
Finance lease assets	755,696	-	(16,749)	-	(156,456)	582,492
Other property, plant and equipment	17,267,937	7,400,687	(1,159,450)	-	(2,950,181)	20,558,993
	3,007,182,784	148,647,475	(15,248,975)	(12,625,823)	(105,121,957)	3,022,833,504

Work-in-progress

Opening balance	310,188,054	313,109,297
Additions	104,539,365	137,096,622
Assets completed during the period	(236,220,979)	(140,017,865)
	178,506,440	310,188,054

Property, plant and equipment in the process of being constructed or developed

Cumulative expenditure recognised in the carrying value of property, plant and equipment

Land and buildings	46,353,618	27,133,542
Infrastructure	132,152,822	283,054,512
	178,506,440	310,188,054

Merafong City Local Municipality

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3. Property, plant and equipment (continued)

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance

Employee related costs	66,930,361	54,108,539
Repairs and maintenance	16,741,297	11,839,876
	83,671,658	65,948,415

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

4. Intangible assets

	2017			2016		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	8,574,681	(6,267,069)	2,307,612	8,574,681	(5,799,779)	2,774,902

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Other changes, movements	Amortisation	Total
Computer software	2,774,902	-	-	(467,290)	2,307,612

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Other changes, movements	Amortisation	Total
Computer software	3,180,190	554,790	-	(960,078)	2,774,902

5. Heritage assets

	2017			2016		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Art Collections, antiquities and exhibits	197,084	-	197,084	198,084	(1,000)	197,084

Reconciliation of heritage assets 2017

	Opening balance	Total
Art Collections, antiquities and exhibits	197,084	197,084

Reconciliation of heritage assets 2016

Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand 2017 2016

5. Heritage assets (continued)

	Opening balance	Impairment losses recognised	Total
Art Collections, antiquities and exhibits	198,084	(1,000)	197,084

6. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

At amortised cost

Consumer debtors	201,780,249	190,370,773
Cash and cash equivalents	206,443,600	84,789,166
Investments	-	4,171,083
Other receivables from exchange transactions	35,208,722	27,809,108
	443,432,571	307,140,130

7. Employee benefit obligations

Defined benefit plan

The following is defined as a benefit plan: Joint Municipal Pension Fund. These are not treated as defined benefit plans as defined by GRAP25, but are accounted for as defined contribution plans. This is in line with the exemption in GRAP 25.31 which states that where information required for defined benefit plan accounting is not available in respect of multi-employer plans, these should be accounted for as defined contribution plans. The municipality has been unsuccessful in obtaining the necessary information to support proper defined benefit plan accounting due to restrictions imposed by the multi-employer plan. It is therefore deemed impracticable to obtain this information at a suitable level of detail.

ARCH Actuaries, approved pension fund valuator and member of the Actuarial Society of South Africa (ASSA), performed the actuarial valuations at 30 June 2017 as well as 30 June 2016.

The amounts recognised in the statement of financial position are as follows:

Carrying value

Present value of the defined benefit obligation-wholly unfunded	(115,365,915)	(121,718,090)
Non-current liabilities	(112,258,424)	(118,689,302)
Current liabilities	(3,107,491)	(3,028,788)
	(115,365,915)	(121,718,090)

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	(121,718,090)	(126,222,446)
Benefits paid	2,687,209	2,845,024
Net expense recognised in the statement of financial performance	3,664,966	1,659,332
	(115,365,915)	(121,718,090)

Net expense recognised in the statement of financial performance

Current service cost	(5,660,638)	(6,437,738)
Interest cost	(11,360,286)	(11,064,638)
Actuarial gains (losses)	20,685,890	19,161,708
	3,664,966	1,659,332

Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2017

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7. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9.79 %	9.45 %
Medical cost trend rates	8.08 %	8.48 %
Expected increase in healthcare costs	1.58 %	0.89 %

Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

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7. Employee benefit obligations (continued)

Sensitivity Analysis on the Accrued Liability (R Millions)

Assumption	Change	In-service
Central Assumptions		79.156
Health care inflation	1%	84.988
	-1%	71.375
Post-retirement mortality	-1 yr	81.393
Average retirement age	-1 yr	86.659
Withdrawal Rate	-10%	68.118

Sensitivity Analysis on the Accrued Liability (R Millions)

Assumption	Continuation	Total	% change
Central Assumptions	36.245	115.401	
Health care inflation	37.035	122.023	6%
	35.090	106.464	-8%
Post-retirement mortality	37.466	118.859	3%
Average retirement age	36.245	122.905	7%
Withdrawal Rate	36.245	104.363	-10%

Sensitivity Analysis on the Current-service and Interest Costs

Assumption	Change	Current-service Cost
Central Assumptions		5,660,600
Health care inflation	1%	6,954,100
	-1%	4,694,400
Post-retirement mortality	-1 yr	5,841,400
Average retirement age	-1 yr	6,013,700
Withdrawal Rate	-50%	4,873,300

Sensitivity Analysis on the Current-service and Interest Costs

Assumption	Interest Cost	Total	% change
Central Assumptions	11,360,400	17,021,000	
Health care inflation	12,132,300	19,086,400	12%
	10,367,200	15,061,600	-12%
Post-retirement mortality	11,743,300	17,584,700	3%
Average retirement age	12,111,400	18,125,100	6%
Withdrawal Rate	10,298,700	15,172,000	-11%

There are no plan assets.

Key demographic assumptions

Assumption	Value		
Average retirement age	65 for males; 60 for females		
Continuation of membership at retirement	95%		
Proportion assumed married at retirement	90%		
Proportion of eligible current non-member employees joining the scheme by retirement	10%		
Mortality during employment	SA 85-90		
Mortality post-retirement	PA90-1		
Withdrawals from service (sample annual rates)	Age	Females	Males
	20	24%	16%
	30	18%	12%
	40	10%	8%
	50	4%	4%
	>55	2%	2%

Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

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7. Employee benefit obligations (continued)

Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and interest cost	17,341,500	14,827,200
Effect on defined benefit obligation	122,023,000	106,464,000

Amounts for the current and previous four years are as follows:

	2017 R	2016 R	2015 R	2014 R	2013 R
Defined benefit obligation	(115,365,915)	(121,718,090)	(126,222,446)	(110,718,963)	(88,011,586)
Surplus (deficit)	20,685,890	19,161,708	(2,023,893)	(12,164,631)	(22,250)
Experience adjustments on plan liabilities	(7,901,000)	(15,076,000)	(356,000)	(10,286,000)	937,000

8. Investments

At amortised cost

Fixed deposits	-	4,171,083
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Pledged investments

Fixed deposits amounting to R0 (2016 - R4,171,083) has been invested for the purpose of repaying long-term liabilities. The investment is with Standard Bank at an interest rate of (2016: 4.4%).

Credit quality of investments

The credit quality of investments can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

Merafong City Local Municipality

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9. Inventories		
Consumable stores	-	4,973,619
Water	743,227	669,185
Properties Held for Resale	22,424,983	22,424,983
Prepaid water meters	2,011,500	2,781,000
	25,179,710	30,848,787

Properties held for sale

Where properties have been identified as being held for sale in the ordinary course of operations, and the intention is to dispose of them, they are recognised as inventory.

Reconciliation of Consumable stores and Prepaid water meters

Opening balance	7,754,619	6,017,296
Additions	1,542,756	6,587,231
Issued (expensed)	(7,285,876)	(4,849,908)
	2,011,500	7,754,619

Reconciliation of Water

Opening balance	669,185	597,098
Additions	183,309,152	182,745,512
Issued (expensed)	(183,235,110)	(182,673,425)
	743,227	669,185

10. Receivables from exchange transactions

Other receivables	918,529	898,952
SARS	33,682,908	26,506,153
Prepayments	607,285	404,003
	35,208,722	27,809,108

Fraud Cashiers Debtor of R1,800,080 has been written off in the 2015/16 financial year as the State has withdrawn the cases against the employees.

Credit quality of trade and other receivables

The credit quality of other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

Reconciliation of provision for impairment of receivables from exchange transactions

Opening balance	-	(1,800,080)
Debt written off	-	1,800,080
	-	-

11. Other receivables from non-exchange transactions

Fines	36,792,896	25,326,014
Less: Provision for debt impairment	(32,512,103)	(23,312,638)
	4,280,794	2,013,377

Merafong City Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2017	2016
11. Consumer debtors (continued)		
Credit quality of other receivables from non-exchange transactions		
The credit quality of other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:		
Reconciliation of provision for impairment of other receivables from non-exchange transactions		
Opening balance	-	16,206,906
Provision for impairment	-	(16,206,906)
	-	-
12. Consumer debtors		
Gross balances		
Rates	211,293,912	177,670,184
Electricity	71,819,168	54,265,470
Water	366,196,396	296,474,858
Sewerage	69,059,958	53,432,398
Refuse	111,387,965	85,385,675
Other	308,547,893	240,270,495
	1,138,305,293	907,499,079
Less: Allowance for impairment		
Rates	(152,831,251)	(141,327,739)
Electricity	(29,944,772)	(22,844,684)
Water	(327,535,764)	(268,962,323)
Sewerage	(63,779,372)	(49,382,106)
Refuse	(98,166,713)	(79,314,708)
Other	(268,547,965)	(157,310,122)
	(940,805,836)	(719,141,682)
Net balance		
Rates	58,462,660	36,342,445
Electricity	41,874,397	31,420,786
Water	38,660,632	27,512,535
Sewerage	5,280,587	4,050,292
Refuse	13,221,252	6,070,966
Other	39,999,928	82,960,373
	197,499,456	188,357,397
Included in above is receivables from exchange transactions		
Electricity	41,874,397	31,420,786
Water	38,660,632	27,512,535
Sewerage	5,280,587	4,050,292
Refuse	13,221,252	6,070,966
Other	39,999,928	82,960,374
	139,036,796	152,014,953
Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	58,462,660	36,342,445
Net balance	197,499,456	188,357,398

Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
12. Consumer debtors (continued)		
Rates		
Current (0 -30 days)	10,893,828	1,319,122
31 - 60 days	8,334,671	1,677,475
61 - 90 days	5,559,990	4,776,620
91 - 120 days	4,869,291	4,951,940
121 - 365 days	4,757,484	4,874,716
> 365 days	176,878,647	160,070,312
	211,293,912	177,670,184
Electricity		
Current (0 -30 days)	113,102,029	23,314,665
31 - 60 days	36,982,478	6,306,748
61 - 90 days	18,340,889	40,305,578
91 - 120 days	22,851,163	16,064,603
121 - 365 days	36,179,727	37,457,446
> 365 days	699,555,365	606,379,855
	927,011,651	729,828,895

Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
12. Consumer debtors (continued)		
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	75,387,431	75,430,467
31 - 60 days	21,738,777	45,005,530
61 - 90 days	17,915,507	47,263,438
91 - 120 days	15,119,195	17,377,520
121 - 365 days	29,037,579	41,032,114
> 365 days	373,487,085	484,758,839
	532,685,573	710,867,908
Less: Allowance for impairment	(477,606,579)	(591,355,645)
	55,078,994	119,512,264
Industrial/ commercial		
Current (0 -30 days)	46,031,369	32,763,266
31 - 60 days	22,472,261	22,337,949
61 - 90 days	14,340,905	10,438,346
91 - 120 days	12,102,871	8,898,784
121 - 365 days	11,416,056	9,151,559
> 365 days	484,387,528	88,117,275
	590,750,989	171,707,179
Less: Allowance for impairment	(462,885,832)	(127,540,549)
	127,865,157	44,166,630
National and provincial government		
Current (0 -30 days)	1,849,148	2,908,575
31 - 60 days	1,069,658	1,976,910
61 - 90 days	767,116	1,415,635
91 - 120 days	462,878	1,054,013
121 - 365 days	457,528	1,089,212
> 365 days	8,569,681	14,300,125
	13,176,009	22,744,470
Other		
Current (0 -30 days)	727,910	153,128
31 - 60 days	36,453	81,048
61 - 90 days	27,962	85,990
91 - 120 days	35,511	81,283
121 - 365 days	26,049	92,344
> 365 days	839,107	1,685,726
	1,692,992	2,179,520
Less: Allowance for impairment	(313,425)	(245,487)
	1,379,567	1,934,033
Total		
Current (0 -30 days)	123,995,858	111,255,437
31 - 60 days	45,317,149	69,401,437
61 - 90 days	33,051,489	59,203,409
91 - 120 days	27,720,454	27,411,601
121 - 365 days	40,937,211	51,365,229
> 365 days	867,283,402	588,861,965
	1,138,305,563	907,499,078
Less: Allowance for impairment	(940,805,836)	(719,141,681)

Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
12. Consumer debtors (continued)		
	197,499,727	188,357,397
Reconciliation of allowance for impairment		
Balance at beginning of the year	(719,141,682)	(622,098,530)
Contributions to allowance	(263,761,926)	(203,893,117)
Debt impairment written off against allowance	42,097,772	106,849,966
	(940,805,837)	(719,141,682)

Fair value of consumer debtors

The fair value of consumer debtors approximates their carrying amounts.

Consumer debtors past due but not impaired

Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2017, R 88,247,128 (2016: R 14,803,865) were past due but not impaired.

Consumer debtors impaired

As of 30 June 2017, consumer debtors of R 42,097,772 (2016: R 106,849,966) were impaired and written off.

13. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand (Credit grade: High)	14,025	14,525
Call deposits & short-term investments (Credit grade: High)	206,429,575	84,774,641
	206,443,600	84,789,166

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2017	30 June 2016	30 June 2015	30 June 2017	30 June 2016	30 June 2015
NEDBANK Ltd - Current account No. 1454087331	40,465,996	1,351,369	1,635,684	27,476,336	2,630,685	(687,110)
NEDBANK Ltd - Current account No. 1454087358	-	-	70,260	-	-	-
NEDBANK Ltd - Current account No. 1454087366	-	-	5,724	-	-	5,725
NEDBANK Ltd - Current account No. 1454087374	-	-	9,535	-	-	9,538
NEDBANK Ltd - Current account No. 1454087382	-	-	(569)	-	-	15
NEDBANK Ltd - Savings account No. 7492501323/5	128,875,568	82,143,956	86,206,102	128,875,568	82,143,956	86,605,262
VBS Mutual Bank	50,077,671	-	-	50,077,671	-	-
Cash on hand	14,025	-	14,525	14,025	14,525	14,525
Total	219,433,260	83,495,325	87,941,260	206,443,600	84,789,166	85,947,955

Merafong City Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2017	2016
14. Other financial liabilities		
At amortised cost		
Nedbank	42,957,956	46,103,942
The Nedbank loan with an interest rate 11.22% will redeem 30 May 2025		
DBSA	25,506,749	27,315,962
The Development Bank of Southern Africa loan with an interest rate of 5% will redeem 30 September 2027		
	68,464,705	73,419,904
Total other financial liabilities	68,464,705	73,419,904
Non-current liabilities		
At amortised cost	63,116,964	68,532,373
Current liabilities		
At amortised cost	5,347,741	4,887,531
15. Finance lease obligation		
Minimum lease payments due		
- within one year	850,779	687,835
- in second to fifth year inclusive	1,158,047	379,275
	2,008,826	1,067,110
less: future finance charges	(412,054)	(144,705)
Present value of minimum lease payments	1,596,772	922,405
Present value of minimum lease payments due		
- within one year	639,654	576,805
- in second to fifth year inclusive	957,118	345,600
	1,596,772	922,405
Non-current liabilities	957,118	345,601
Current liabilities	639,654	576,805
	1,596,772	922,406
The lease terms average from two to five years and the effective borrowing rate is as determined by the Standard Interest Rate to be levied on debt owing to the state. Obligations under finance leases are secured by the lessor's title to the leased asset.		
16. Unspent conditional grants, receipts and donations		
Unspent conditional grants, receipts and donations comprises of:		
Unspent conditional grants, receipts and donations		
MIG Grants	13,610,590	-
Water Services Infrastructure Grant	6,807,024	-
WRDM	119,910	119,910
Department of Mineral Energy	(806,988)	(1,315,711)
Department of Water Affairs	-	1,392,681
Human Settlement Grant	25,559,096	11,971,003
Provincial Disaster Fund	265,338	-
Department of Cooperative Governance and Traditional Affairs	500,000	-
Other grants and donations	3,251,146	2,954,797
	49,306,116	15,122,680

Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
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16. Unspent conditional grants, receipts and donations (continued)

Movement during the year

Balance at the beginning of the year	15,122,680	17,835,307
Additions during the year	256,470,184	176,311,745
Income recognition during the year	(222,286,748)	(179,024,372)
	49,306,116	15,122,680

These amounts are invested in a ring-fenced investments until utilised.

17. Provisions

Reconciliation of provisions - 2017

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Long service awards	28,147,959	-	(89,272)	-	28,058,687
Provision for rehabilitation of landfill sites	7,245,311	2,499,155	-	63,409	9,807,875
Performance bonus	1,520,482	1,606,934	(741,639)	-	2,385,777
Leave	20,466,058	14,813,687	(12,507,768)	-	22,771,977
	57,379,810	18,919,776	(13,338,679)	63,409	63,024,316

Reconciliation of provisions - 2016

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Long service awards	25,631,569	2,516,390	-	-	28,147,959
Provision for rehabilitation of landfill sites	6,960,441	468,655	(183,785)	-	7,245,311
Performance bonus	2,072,629	1,520,428	(1,396,120)	(676,455)	1,520,482
Leave	20,645,680	9,449,667	(9,629,289)	-	20,466,058
	55,310,319	13,955,140	(11,209,194)	(676,455)	57,379,810

Non-current liabilities	34,890,259	30,631,930
Current liabilities	28,134,057	26,747,880
	63,024,316	57,379,810

Provision for rehabilitation of landfill sites

The provision for rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites used for waste disposal. It is calculated as the present value of the future obligation, discounted at the prevailing prime interest rate, over the estimate useful life of the landfill site. The calculation was done internally.

Performance bonus

Performance bonuses are paid one year in arrears as the assessment of eligible employees has not taken place at the reporting date and no present obligation exists.

Performance bonuses are provided at 14% of the packages of section 57 employees.

Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
18. Payables from exchange transactions		
Trade payables	419,016,560	119,487,421
Payments received in advance	17,784,388	12,066,608
Outstanding cheques	42,143,921	140,433,980
Retentions	16,278,426	27,270,056
Deposits received	461,900	461,900
Accruals and sundry creditors	5,587,655	8,962,667
	501,272,850	308,682,632

Fair value of trade and other payables

The fair value of trade and other payables approximates their carrying amounts.

19. VAT payable

VAT payable	40,790,620	50,997,537
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VAT is accounted for on the payment (cash) basis.

20. Consumer deposits

Electricity and Water and sundries	13,664,460	12,686,551
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21. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

At amortised cost

Payables	542,063,469	359,680,168
Finance lease obligation	1,596,772	922,406
Long-term liabilities	68,464,705	73,419,904
Consumer deposits	13,664,460	12,686,551
Unspent conditional grants and receipts	49,306,116	15,122,680
	675,095,522	461,831,709

Merafong City Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2017	2016
22. Property rates		
Rates received		
Residential	204,818,069	182,752,842
Less: Income forgone	(43,288,072)	(32,336,430)
	161,529,997	150,416,412
Property rates - penalties imposed and collection charges	3,154,963	1,070,224
	164,684,960	151,486,636

Valuations R'000

Residential	7,736,611	7,919,640
Commercial	3,469,562	4,652,891
State	25,132	25,132
Municipal	141,434	165,516
	11,372,739	12,763,179

Valuations on land and buildings are performed every four years. The last valuation came into effect on 1 July 2012. Interim valuations are processed on a quarterly basis to take into account changes in individual property values due to alterations and subdivisions. A general rate of R0.013 (2016: R0.01214) is applied to property valuations for residential properties, R0.0325 (2016: R 0.02913) for businesses and R0.039 (2016: R0.03641) for mines to determine assessment rates. Rates are levied on a monthly basis on property owners. Interest at the Prime interest rate is levied on outstanding rates.

The MEC for COGTA granted approval to extend the validity period of the valuation roll to 30 June 2019 in compliance with the amended Municipal Property Rates Act. The valuation process for the next valuation roll valid from 01 July 2019 to 30 June 2024 will be undertaken in the next financial year.

23. Service charges

Sale of electricity	261,751,200	252,957,913
Sale of water	258,526,439	253,089,487
Sewerage and sanitation charges	39,042,111	38,680,955
Refuse removal	58,974,426	54,973,351
Rent subsidised housing	1,242,044	818,416
	619,536,220	600,520,122

Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
24. Government grants and subsidies		
Equitable share and other government grants	381,998,207	347,064,153
Equitable Share		
The amount received and spent for equitable share was R161,161,000 (2016: R168,320,000).		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
All registered indigents receive a monthly subsidy of R368.77 (2016: R341.80), which is funded from this grant.		
MIG Grant		
Current-year receipts	55,283,000	56,008,000
Conditions met - transferred to revenue	(41,672,410)	(56,008,000)
	13,610,590	-
Conditions still to be met - remain liabilities (see note 16).		
Water Services Infrastructure Grant		
Current-year receipts	20,000,000	-
Restructuring	(13,192,976)	-
	6,807,024	-
Conditions still to be met - remain liabilities (see note 16).		
Provincial Disaster Fund		
Current-year receipts	118,075,000	-
Conditions met - transferred to revenue	(117,809,662)	-
	265,338	-
Conditions still to be met - remain liabilities (see note 16).		
Human Settlement Grant		
Balance unspent at beginning of year	11,971,004	17,406,707
Current-year receipts	26,282,000	82,566,162
Conditions met - transferred to revenue	(12,693,908)	(88,001,865)
	25,559,096	11,971,004
Conditions still to be met - remain liabilities (see note 16).		
This grant was used to construct housing. Other than the unspent amount, the conditions of the grant were met. No funds have been withheld.		
West Rand District Municipality		
Balance unspent at beginning of year	119,910	-
Current-year receipts	1,650,020	6,493,248
Conditions met - transferred to revenue	(1,650,020)	(6,373,338)
	119,910	119,910

Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
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24. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 16).

This grant was used to construct infrastructure and to finance a HIV Programme. Other than the unspent amount, the conditions of the grant were met. No funds have been withheld.

Department of Energy

Balance unspent at beginning of year	(1,315,711)	(2,651,324)
Current-year receipts	15,000,000	10,000,000
Conditions met - transferred to revenue	(14,491,277)	(8,664,387)
	(806,988)	(1,315,711)

Conditions still to be met - remain liabilities (see note 16).

This grant was used to construct infrastructure. Other than the unspent amount, the conditions of the grant were met.

Department of Sports, arts, culture and recreation

Current-year receipts	12,900,000	9,903,000
Conditions met - transferred to revenue	(12,900,000)	(9,903,000)
	-	-

This grant was used to acquire a library management system. Other than the unspent amount, the conditions of the grant were met. No funds have been withheld.

EPWP

Current-year receipts	1,424,000	2,275,000
Conditions met - transferred to revenue	(1,424,000)	(2,275,000)
	-	-

Financial Management Grant (FMG)

Current-year receipts	1,625,000	1,600,000
Conditions met - transferred to revenue	(1,625,000)	(1,600,000)
	-	-

Municipal Systems Improvement Grant

Current-year receipts	-	930,000
Conditions met - transferred to revenue	-	(930,000)
	-	-

Department of Water Affairs

Balance unspent at beginning of year	1,392,681	-
Current-year receipts	-	4,900,000
Conditions met - transferred to revenue	(1,392,681)	(3,507,319)
	-	1,392,681

Conditions still to be met - remain liabilities (see note 16).

National Lottery Fund

Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
24. Government grants and subsidies (continued)		
Balance unspent at beginning of year	407,503	407,503
Conditions met - transferred to revenue	(407,503)	-
	-	407,503
Department of Agriculture and Rural Development (GDARD)		
Balance unspent at beginning of year	-	838,534
Conditions met - transferred to revenue	-	(838,534)
	-	-
Department of Cooperative Governance and Traditional Affairs - EPWP Incentive		
Current-year receipts	500,000	-
Conditions met - transferred to revenue	(500,000)	-
	-	-
Department of Cooperative Governance and Traditional Affairs - GRAP 17 Compliance		
Current-year receipts	1,500,000	-
Conditions met - transferred to revenue	(1,000,000)	-
	500,000	-
Conditions still to be met - remain liabilities (see note 16).		
Changes in level of government grants		
Based on the allocations set out in the Division of Revenue Act, 2006 significant changes will occur as all grants allocated to the municipality are reduced substantially.		
25. Other income		
Administrative costs	389,959	353,414
Building plan fees	645,959	464,295
Certificates and levies	562,735	167,989
Claims	1,074,255	677,954
Commission and other recoveries	224,934	259,537
Dumping	70,686	75,121
Electricity meter conversions	271,903	207,633
Fees and permits	935,148	736,652
Other income	752,873	1,861,239
	4,928,452	4,803,834
26. Public contributions and donations		
Public contributions and donations		
Donations	1,527,311	922,930
These contributions and donations were used for social upliftment. Other than the unspent amount, the conditions of these were met. No funds have been withheld.		
Reconciliation of unspent public contributions and donations		
Balance unspent at the beginning of the year	2,547,294	1,833,888
Current year receipts	2,231,164	1,636,336
Conditions met - transferred to revenue	(1,527,311)	(922,930)
	3,251,147	2,547,294

Merafong City Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2017	2016
26. Public contributions and donations (continued)		
27. General expenses		
Advertising	703,165	371,359
Bank charges	2,698,159	2,713,862
Clean-up projects	5,203,064	2,089,872
Cleaning	261,406	370,238
Community development and training	2,077,774	2,186,552
Conferences and seminars	5,660	6,315
Consumables	823,103	895,571
Electricity	12,816,012	17,746,892
Employment equity	1,554,966	1,546,490
Entertainment	16,131	161,570
Forensic audits	374,657	-
Fuel and oil	9,750,624	7,767,055
Hire	380,636	709,013
Horticulture	104,976	34
IT expenses	106,338	1,301,161
Khutsong resettlement costs	6,040	5,635
Legal fees	11,305,729	10,418,833
Library projects	9,312,100	5,866,304
Magazines, books and periodicals	783	5,186
Maintenance of valuation roll	19,896	1,000
Maps	41,470	12,056
Other expenses	22,050,622	12,409,016
Printing and stationery	1,013,877	771,964
Promotions and sponsorships	2,329	20,298
Refuse	613,253	508,196
Secretarial fees	79,000	101,623
Sewerage	40,856	56,043
Software expenses	1,995,583	2,508,254
Telephone and fax	3,205,256	3,386,160
Third party pre-paid vending	3,014,960	2,309,663
Title deed search fees	73,845	40,333
Tourism development	150	54,764
Training	38,021	817,478
Travel - local	171,489	120,184
VAT audit	3,258,285	184,602
WRDA Project	4,500,000	-
Water	1,333,580	428,402
	98,953,795	77,891,978

Merafong City Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2017	2016
28. Employee related costs		
Housing benefits and allowances	1,820,326	1,959,257
Performance bonus	865,296	995,999
Medical aid - company contributions	21,531,944	21,073,601
Overtime payments	23,856,307	22,899,679
Pension	28,251,866	32,692,738
Long service bonus	4,062,726	2,320,950
Provident fund	1,961,320	1,962,356
SALGBC	87,026	86,893
SDL	1,897,357	2,395,466
Salaries and wages	194,308,311	197,309,002
Travel, motor car, accommodation, subsistence and other allowances	9,393,672	9,718,449
UIF	1,438,343	1,510,954
WCA	1,708,788	1,179,834
	291,183,282	296,105,178

Remuneration of Municipal Manager - Thibini Langa, Reginald

Annual Remuneration	1,107,672	1,003,560
Travel, motor car, accommodation, subsistence and other allowances	177,547	179,550
Performance & other bonuses	-	192,172
Contributions to UIF, Medical and Pension Funds	378,510	357,753
	1,663,729	1,733,035

Remuneration of Chief Financial Officer - Ngwenya, Antoinette Rinky

Annual Remuneration	1,070,028	967,644
Travel, motor car, accommodation, subsistence and other allowances	245,819	245,819
Performance & other bonuses	-	168,323
Contributions to UIF, Medical and Pension Funds	347,882	327,400
	1,663,729	1,709,186

Remuneration of Chief Operating Officer

The Chief Operating Officer is now the Acting Municipal Manager since 1 December 2014.

Remuneration of executive directors

2017	Infrastructure Development Maja Lekgau, Mack	Corporate Services Conjwa Zoleka, Gloria	Community Services Hobe Daniel, Mtwakaziwa	Economic Development & Planning Nieuwoudt Casper, Wilhelmus, Albertus	Total
Annual remuneration	1,118,706	563,730	1,166,952	1,237,512	4,086,900
Travel, motor car, accommodation, subsistence and other allowances	175,778	83,503	137,747	56,885	453,913
Contributions to UIF, Medical and Pension Funds	369,245	184,631	359,030	369,332	1,282,238
	1,663,729	831,864	1,663,729	1,663,729	5,823,051

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Figures in Rand				2017	2016
28. Employee related costs (continued)					
2016	Infrastructure Development Maja Lekgau, Mack	Corporate Services	Community Services Hobe Daniel, Mtwakaziwa	Economic Development & Planning Nieuwoudt Casper, Wilhelmus, Albertus	Total
Annual remuneration	1,014,588	1,023,351	1,067,880	1,138,433	4,244,252
Travel, motor car, accommodation, subsistence and other allowances	180,949	169,154	138,109	57,389	545,601
Performance & other bonuses	112,632	114,008	145,586	276,060	648,286
Contributions to UIF, Medical and Pension Funds	345,326	348,358	334,874	345,042	1,373,600
	1,653,495	1,654,871	1,686,449	1,816,924	6,811,739

Refer to Related Party note for related party relationships (see note 40).

29. Remuneration of councillors

Executive Mayor	811,165	811,529
Executive Committee Members	8,356,343	7,337,815
Speaker	659,412	654,115
Councillors	10,057,347	10,991,570
	19,884,267	19,795,029

There are 10 (2016:10) Executive Committee Members and 44 (2016:44) Other Councillors.

In-kind benefits

The Executive Mayor, Speaker, Chief Whip and Executive Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Executive Mayor has the use of a Council owned vehicle for official duties.

The Executive Mayor has four full-time VIP Security personnel.

The Executive Mayor has two full-time bodyguards.

30. Debt impairment

Debt impairment	272,961,390	227,205,755
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31. Investment revenue

Interest revenue		
Bank and investments	7,317,640	5,602,314

32. Depreciation and amortisation

Property, plant and equipment	110,493,786	105,121,957
Intangible assets	467,290	960,078
	110,961,076	106,082,035

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Figures in Rand	2017	2016
33. Finance costs		
External loans	6,230,514	4,839,078
Finance leases	406,169	111,030
Interest: Rehabilitation of landfill sites	618,749	468,655
Interest: Arrear accounts	16,184,845	4,550,651
	23,440,277	9,969,414
34. Contracted services		
Fleet Services	30,274,208	36,819,077
Operating Leases	1,426,698	1,296,311
Specialist Services	26,912,908	33,290,373
Other Contractors	6,066,518	10,545,914
	64,680,332	81,951,675
35. Grants and subsidies paid		
Other subsidies		
Grant/subsidy to indigent consumers	9,018,959	26,548,130
	9,018,959	26,548,130
36. Bulk purchases		
Electricity	208,519,754	199,640,567
Water	183,309,152	182,673,425
	391,828,906	382,313,992
37. Cash generated from operations		
Deficit	(85,022,876)	(66,209,469)
Adjustments for:		
Depreciation and amortisation	110,961,076	106,082,035
(Gain) on sale of assets and liabilities	(2,900,000)	(47,973)
Impairment loss	3,503,303	15,271,219
Debt impairment	272,961,390	227,205,755
Movements in retirement benefit assets and liabilities	(6,352,175)	(4,504,356)
Movements in provisions	5,644,506	2,069,491
Other non-cash items	954,560	12,652,552
Changes in working capital:		
Inventories	5,669,077	(7,068,184)
Receivables from exchange transactions	(7,399,614)	60,163,410
Consumer debtors	(282,103,453)	(243,943,686)
Other receivables from non-exchange transactions	(2,267,416)	(2,013,377)
Payables from exchange transactions	192,590,213	37,422,538
VAT	(10,206,917)	(8,277,288)
Unspent conditional grants, receipts and donations	34,183,436	(2,712,627)
Consumer deposits	977,909	201,555
	231,193,019	126,291,595

Merafong City Local Municipality

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Figures in Rand	2017	2016
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38. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Property, plant and equipment - Infrastructure	104,824,673	81,915,266
• Property, plant and equipment - Community	3,618,212	10,534,730
• Other financial assets	335,160	-
	108,778,045	92,449,996

This expenditure will be financed from:

Government grants	108,442,885	82,013,266
Own resources	335,160	10,436,730
	108,778,045	92,449,996

Total capital commitments

Already contracted for but not provided for	108,778,045	92,449,996
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This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

Operating leases - as lessee (expense)

Minimum lease payments due

- within one year	1,864,952	17,541,196
- in second to fifth year inclusive	-	1,864,952
	1,864,952	19,406,148

Operating lease payments represent rentals payable by the municipality for fleet services and office equipment. The lease was negotiated for a period of 36 months. There are no contingent rents on these agreements.

Other operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

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39. Contingencies		
Contingent liabilities		
Notice of motion: declaratory order: liability of municipality regarding legal costs for valuations review application as per above	1,000,000	-
Review application on SALGBC award: unfair dismissal: HS Mageza	800,000	-
Review application on SALGBC award: unfair labour practice: TK Pooe and others	900,000	-
Review application on SALGBC award: unfair labour practice: Khoabane and others	1,500,000	-
Review application on SALGBC award: unfair dismissal: JS Mosenogi	500,000	-
Combined summons: high court: alleged unlawful termination of contract: Mogale Solution Providers	3,918,211	-
Appeals court application for the provision of water to the mines- Claimant: AngloGold Ashanti	302,000,000	2,000,000
Combined summons: unlawful termination of meter reading contract: Re Tshepeng/General Construction 30 CC & Madi Ke Ao Trading Enterprise CC	2,000,000	1,500,000
Appeals against valuations mining properties claimants: AngloGold Ashanti, Harmonygold, Goldfields	320,403,799	320,403,799
Rescission of Arbitration Award at SALGBC - Claimant: Ms F. Yona	-	200,000
Unprocedural Termination of Employment Contract - Claimants: SAMWU obo DR.N.E.Mokgethi-Blaai	3,000,000	2,000,000
Review Application of Bargaining Council Award: Condonation Application - Claimants: SAMWU obo Abram Toons	500,000	500,000
Motion application: High Court: Pule Molefe and Blyvoor residents: Municipality, RandWater and others	1,000,000	1,000,000
Combines summons: High Court Melsibongakonke, Face of Earth, DPM Trading(grass cutting contract)	4,280,753	4,280,753
Notice of Motion: Labour Court: Application to make bargaining council award an order of court	3,500,000	1,500,000
	645,302,763	333,384,552

40. Related parties

Relationships

Acting Municipal Manager (Key management)	Thibini Langa, Reginald
Acting Municipal Manager (Key management)	Mohaudi, Romeo
Chief Financial Officer (Key management)	Ngwenya Antoinette, Rinky
Chief Operating Officer (Key management)	Thibini Langa, Reginald
Executive Director (Key management)	Nieuwoudt, Casper, Wilhelmus, Albertus
Executive Director (Key management)	Hobe Daniel, Mtwakaziwa
Executive Director (Key management)	Maja Lekgau, Mack

Refer to Employee Related Costs note for remuneration of Key Management Personnel (see note 28).

41. Change in estimate

Property, plant and equipment

There was a change in useful lives review which had the following impact:

Depreciation expense on affected assets before remaining useful lives review:	R609,019
Depreciation expense on affected assets after remaining useful lives review:	R196,804
Future reduction in depreciation due to review:	R412,215

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42. Prior period errors

2017

The municipality adjusted Property rates revenue, as well as relating Consumer debtors, due to changes in the mines' valuation roll.

The municipality adjusted property, plant and equipment due to errors which resulted in an increase in cost and accumulated surplus.

2016

The municipality discovered errors in the work in progress. Merafong municipality, during the merging of all municipal projects under the project management unit, found projects that should have expensed during 2014/15 financial year, which was corrected accordingly.

Correction was made of a misallocation from revenue for electricity to general expenses.

The correction of the error(s) results in adjustments as follows:

	2016	2015
Statement of Financial Position		
Property, plant and equipment	2,964,185	3,311,486
Consumer debtors - Property rates	(52,122,358)	-
Opening Accumulated Surplus or Deficit	(2,964,185)	(172,605)
Statement of Financial Performance		
Repairs and maintenance	-	4,383,107
Property rates	52,122,358	-
Public contributions and donations	-	(12,686,889)
Depreciation	-	191,769
Grants and subsidies paid	-	4,973,132
General expenses	8,276,619	
Service charges - electricity	(8,276,619)	

43. Comparative figures

Certain comparative figures have been reclassified and/or renamed in order for the item/transactions to be more in-line with the benchmark presentation and disclosure according to the GRAP Reporting Framework.

Merafong City Local Municipality

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44. Risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

At 30 June 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Gross lease obligation	639,654	451,197	505,921	-
Long term liabilities	5,347,741	5,748,993	20,205,635	37,162,336
Trade and other payables	542,063,469	-	-	-
At 30 June 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Gross lease obligation	576,804	294,096	51,505	-
Long term liabilities	4,887,531	5,256,107	5,657,158	57,619,108
Trade and other payables	359,680,168	-	-	-

Interest rate risk

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk. Municipality policy is to maintain approximately 60% of its borrowings in fixed rate instruments.

At year end, financial instruments exposed to interest rate risk were as follows:

Call deposits
Notice deposits
Development Bank of South Africa loan

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set. The utilisation of credit limits is regularly monitored. Sales to customers are settled in cash or using major credit cards.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2017	2016
Nedbank	156,351,904	84,775,141
Standard Bank	-	4,171,083
Trade and other receivables	236,988,971	218,179,881
VBS Mutual Bank	50,077,671	-

45. Going concern

We draw attention to the fact that at 30 June 2017, the municipality had accumulated surplus of R 2,637,841,922 and that the municipality's total assets exceed its liabilities by R 2,637,841,922.

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45. Going concern (continued)

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business. The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these are that the accounting officer continue to monitor and manage the expenditure levels and cash flow projections. Strict credit control measures and the management of the payment levels of debtors are also factors that must be closely monitored and managed. The liquidity and solvability ratios are also strictly monitored and managed.

Liquidity and solvability ratios	2017	2016
Current ratio (current assets vs current liabilities)	0.72 : 1	0.78 : 1
Acid test ratio (current assets less inventory vs current liabilities)	0.69 : 1	0.71 : 1
Solvability ratio (total assets vs total liabilities)	4.09 : 1	5.24 : 1
Gearing ratio (total long-term debt to total revenue less grants)	4.55	4.44
Debtor collection rate (%)	73.9 %	80.1 %
Liquidity ratio (cash and cash equivalents vs current liabilities)	0.32	0.20

The current ratio and liquidity ratios indicates that the City is still under severe pressure from a liquidity point of view. These ratios to be considered normal, represent a shortfall of approximately R174 million in current assets of which all should be in the form of unencumbered cash and cash equivalents. The shortfall indicates that the municipality incurred a net loss of R86,049,954 during the year ended June 2017. The non-achievement of the 75% debtor collection rate also impacts on the available cash flow. Based on these, Merafong has a financial turnaround plan in place with a 3-year timeframe. The development of such a strategy and plan is monitored daily and is expected to serve in Council in the meeting of January 2018 with the Annual Report for incorporation into the 2017/18 adjustment budget process and the 2018/19 MTREF.

46. Events after the reporting date

There were no subsequent event after the reporting date which requires disclosure.

47. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure - Interest on arrear accounts	16,371,945	4,550,652
Less: Amounts written off by council	(16,371,945)	(4,550,652)
	-	-

48. Irregular expenditure

Opening balance	13,204,717	-
Add: Expenditure - current year	29,158,270	13,204,717
Less: Amounts written off by council	-	-
	42,362,987	13,204,717

49. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription	3,506,295	3,658,670
Amount paid - current year	(3,506,295)	(3,658,670)
	-	-

Audit fees

Current year audit fee	3,046,609	5,122,732
Amount paid - current year	(3,046,609)	(5,122,732)
	-	-

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49. Additional disclosure in terms of Municipal Finance Management Act (continued)

PAYE and UIF

Current year payroll deductions	51,372,723	44,252,558
Amount paid - current year	(46,361,454)	(39,219,795)
	5,011,269	5,032,763

Pension and Medical Aid Deductions

Current year payroll deductions and council contributions	84,988,596	83,520,516
Amount paid - current year	(84,988,596)	(83,520,516)
	-	-

VAT

VAT payable	40,790,620	50,997,537
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VAT output payables and VAT input receivables are shown in note 21.

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

One councillor had arrear accounts outstanding for more than 90 days at 30 June 2017.

30 June 2017	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
TE Tsotetsi	2,901	22,545	25,446
JM Ndobatha	1,760	6,320	8,080
MS Links	260	808	1,068
MP Lefakane	2,550	16,020	18,570
	7,471	45,693	53,164

30 June 2016	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
MP Twala	1,359	1,348	2,707

30 June 2017	Highest outstanding amount	Aging (in days)
TE Tsotetsi	28,258	180+
JM Ndobatha	8,513	180+
MS Links	30,102	180+
MP Lefakane	23,658	180+
	90,531	

30 June 2016	Highest outstanding amount	Aging (in days)
MP Twala	10,290	90+

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50. Utilisation of Long-term liabilities reconciliation

Used to finance property, plant and equipment	68,464,705	73,419,904
	68,464,705	73,419,904
Cash set aside for the repayment of long-term liabilities	-	(4,171,083)

Long-term liabilities

Used to finance property, plant and equipment	68,464,705	73,419,904
Cash set aside and invested for the repayment of long-term liabilities	-	4,171,083

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

51. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

The expenses incurred, as listed hereunder, have been approved/condoned

Emergencies	9,532,721	3,385,479
Sole supplier	-	75,623
Impractical and impossible	906,866	3,825,317
	10,439,587	7,286,419

52. Budget differences

Material differences

Please refer to explanations below.

Differences between budget and actual amounts basis of preparation and presentation

Investment Revenue 131%

Council was declared a disaster area and received an allocation of R118 Million. The grant was transferred in March 2017. The project was only completed at the end of June and the payments were effected during July 2017.

Other Own Revenue 101%

During the preparation of the budget the expenditure from Licenses and permits was not offsetted against the revenue. Revenue was reduced by R30,299,677 as a result of the offsetting.

Employee Costs 89%

Council experienced serious cash flow constraints. Vacancies could not be filled. In addition Council placed a moratorium on the filling of vacancies.

Finance Charges 64%

Council entered into an agreement with Eskom not to levy Council with interest on the arrear account.

Other Expenditure 88%

During the preparation of the budget the expenditure from Licenses and permits was not offsetted against the revenue. Revenue was reduced by R30,299,677 as a result of the offsetting. Council adopted a turn-around strategy. One of the components was a cost cutting exercise. This had resulted in that the departments could only spend if it was an emergency.

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52. Budget differences (continued)

Capital Expenditure and Funds Resources

Capital Expenditure

54%

Provincial Treasury only allocated the Human Settlements grant in the latter part of the financial year. Council experienced challenges with community protests that had delayed projects. In addition on three projects the contractor did not perform as required.

Changes from the approved budget to the final budget

Property Rates

73%

As at 01 July 2012, the total valuation for the mines was R4.6 billion. The valuation appeal board reduced the valuation to R253m with the nett effect that the total property rates recoverable were reduced to R18m. The municipal valuer immediately proceeded with the compilation of supplementary valuation 3 and due to the amendment of the Municipal Property Rates Act, the surface buildings and infrastructure was included. The value based on SV3 increased to R1.8 billion, generating approximately R60m property rates p.a.

Transfers recognised- operational

185%

Council received an grant from National Disaster Fund for the rehabilitation of sinkholes.

Debt Impairment

81%

The payment levels had increased during the year. The estimated provision had to be adjusted in line with the payment history.

Finance Charges

189%

Due to the financial constrains of council service providers are levying interest on overdue accounts.

Other Expenditure

130%

Council was declared a disaster area and received an allocation of R118 Million. The grant was transferred in March 2017.

53. Distribution losses

During the year under consideration Merafong City Local Municipality had unaccounted water of 43.32% (2016: 47.69%) respectively. The total Rand value of these losses were R42,485,098 (2016: R46,738,845). These losses are represented by 5,617,526 Kl (2016: 6,866,084 Kl). The total technical losses of water amounted to R33,332,034 (2016: R36 669 347). Non-technical losses amounted to R9,153,063 (2016: R10 069 498) and are mainly due to deterioration of water reticulation system, burst pipes and unauthorised consumption.

During the year under consideration Merafong City Local Municipality had unaccounted Electricity of 24.81% (2016: 29.44%) respectively. The total Rand value of these losses were R60,778,294 (2016: R58,765,650). These losses are represented by 56,638,506 Kw (2016: 69,052,994 Kw). The total technical losses of electricity amounted to R51,431,557 (2016: R49 728 426). Non-technical losses amounted to R9,346,736 (2016: R9 037 224) and are due to unauthorised consumption, tampering and faulty meters.